

**CATAWBA COUNTY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Catawba County (government) and its discretely presented component units conform to generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The County, which is governed by a five-member board of commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute 153A-10. As required by generally accepted accounting principles, these financial statements present the County and its component units, legally-separate entities for which the County is financially accountable. The Catawba County Industrial Facility and Pollution Control Financing Authority (the *Authority*) exists to issue and service revenue bond debt of private businesses for economic development purposes. The Authority has no financial transactions or account balances; therefore, it is not presented in the basic financial statements. Catawba Valley Medical Center (the *Medical Center*) and the Catawba County ABC Board (the *Board*) both have a June 30 year end and are presented as if they are separate proprietary funds of the County (discrete presentation).

Component Unit	Reporting Method	Criteria for Inclusion	Separate Financial Statements
Catawba County Industrial Facility and Pollution Control Financing Authority	Discrete	The Authority is governed by a seven-member board that is appointed by the County Commissioners. The County can remove any member of the Authority with or without cause.	None Issued.
Catawba Valley Medical Center	Discrete	The Medical Center is a public hospital that was organized in 1962 by resolution of the Board of Commissioners of Catawba County. The County appoints the board of trustees for the Medical Center. The County has also issued revenue bonds for improvement of the Medical Center facilities, which are paid from Medical Center revenues.	Catawba Valley Medical Center 810 Fairgrove Church Road S.E. Hickory, NC 28602
Catawba County ABC Board	Discrete	The members of the ABC Board are appointed by the County. The ABC Board is required by State statute to distribute its surpluses to the General Fund of the County.	Catawba County ABC Board 1910 Fairgrove Church Road Newton, NC 28658

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B. Basis of Presentation, Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the County and for each function of the County's governmental activities. *Direct expenses* are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a specific function. *Indirect expense allocations* that have been made in the funds have been reversed for the statement of activities. *Program revenues* include 1) fees and charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as *general revenues*.

Fund Financial Statements: The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The County reports the following major governmental funds:

General Fund - The *General Fund* is the primary operating fund of the County. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, sales taxes, Federal and State grants, and other various taxes and licenses. The primary expenditures are for education, human services, public safety, economic and physical development, environmental protection, cultural and recreational projects, and general government services.

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Water & Sewer Reserve Fund – The *Water & Sewer Reserve Fund* accounts for the accumulation of funds for the financing and construction of water and sewer capital projects in the unincorporated sections of the County.

Water & Sewer Construction – The *Water and Sewer Construction Fund* accounts for the financing and construction of all major water and sewer capital projects in the unincorporated sections of the County.

Schools Capital Projects Fund – The *Schools Capital Projects Fund* accounts for the financing and construction of major capital projects for the three school systems and community college in the County.

The County reports the following major Proprietary Fund:

Solid Waste Management Fund – The *Solid Waste Management Fund* accounts for the operation, maintenance and development of various landfills and disposal sites and other solid waste activities. The *Solid Waste Reserve Fund* is a reserve established by the County to accumulate the funds necessary to cover the closure and postclosure care costs as well as future capital costs that will be incurred by the landfill. The Solid Waste Reserve Fund is consolidated with the landfill operating fund for financial reporting purposes.

The County reports the following fiduciary fund types:

Agency Funds - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of operating results. Agency Funds are used to account for assets the County holds on behalf of others. The County maintains three Agency Funds: the Social Services, Mental Health, and Sheriff Commissary Funds, which account for monies deposited with the Social Services and Mental Health Departments for the benefit of certain individuals and with the Sheriff's department for inmates.

C. Measurement Focus, Basis of Accounting

In accordance with North Carolina general statutes, all funds of the County are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus*, except for the agency funds that have no measurement focus. The government-wide, proprietary and fiduciary fund financial statements are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Solid Waste Management Fund are charges to customers for services. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when measurable and available. Expenditures are recorded when the related liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated balances, which are recognized to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The County considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Catawba County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the County. For those motor vehicles registered under the staggered system and for vehicles newly-registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2003 through February 2004 apply to the fiscal year ended June 30, 2004. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements. For motor vehicles that are renewed and billed under the annual system, taxes are due on May 1 of each year, and the uncollected taxes are reported as a receivable on the financial statements offset by deferred revenues because the due date and the date upon which the interest begins to accrue passed prior to June 30. The taxes for renewal vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2004 because they are intended to finance the County's operations during the 2005 fiscal year.

Sales taxes collected and held by the State at year-end on behalf of the County are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are

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not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the County follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principals Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The County has implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and related standards. These new standards provide for significant changes in terminology and presentation and for the inclusion of Management's Discussion and Analysis as required supplementary information.

D. Budgetary Data

Budget

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General, Special Revenue and Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances that may span more than one year are adopted for the Capital Projects funds. These appropriations are carried over until the projects are completed. All budgets were prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Transfers of appropriations between funds may be made only by the Board, with the exception of merit, reclassification funds, and special contingency which the County Manager has the authority to transfer. Transfers of appropriations between functional areas in a fund or from contingency shall be approved by the Board, but may be approved by the County Manager if he finds they are consistent with operational needs and any Board approved goals and do not exceed \$50,000 for functional area transfers or \$50,000 for transfers from contingency. Transfers from contingency approved by the Manager could exceed \$50,000 if he determines an emergency exists. All such transfers approved by the Manager must be presented to the Board at its next regular meeting. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers the time until the annual ordinance can be adopted.

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E. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

All deposits of the County are made in board-designated official depositories and are secured as required by G.S. 159-31. The County may designate as an official depository any bank or savings association whose principal office is located in North Carolina. Also, the unit may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the County to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), a SEC-registered money market mutual fund.

The County's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value at June 30, 2004, as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

Cash and Cash Equivalents

A cash and investment pool is maintained by the County to facilitate disbursement and investment and to maximize investment income. The pool is used by all funds except social services, mental health and sheriff commissary agency funds. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. Social services and mental health agency accounts are maintained in time deposits as reflected in Exhibit G-1, and the sheriff commissary account is maintained in a noninterest bearing demand deposit account.

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2003.

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Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

Inventories and Prepaid Items

Inventories of the County are valued at cost, which approximates market, using the first-in, first-out method. The inventory of the County's General Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets of the County are depreciated on a straight line method over the following estimated useful lives:

Buildings and improvements	50 years
Furniture and office equipment	10 years
Maintenance and construction equipment	8 years
Medium and heavy motor vehicles	6 years
Automobiles and light trucks	4 years
Computer Equipment	5 years

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as another financing source.

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Compensated Absences

It is the policy of the County to permit employees to accumulate up to thirty (30) days earned but unused vacation leave, with such leave being fully vested when earned. For the County, the current portion of the accumulated vacation pay and salary-related payments is not considered to be material; therefore, no expenditure or liability has been reported in the County's governmental funds. The County's liability for accumulated earned vacation and the salary-related payments as of June 30, 2004, is recorded in the government-wide financial statements. For the County's proprietary fund, an expense and a liability for compensated absences and the salary-related payments are recorded within those funds as the leave is earned, if the amount is considered to be material.

The sick leave policy of the County provides for an unlimited accumulation of earned but unused sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither entity has any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made by the County.

Net Assets/Fund Balances

Net Assets

Net Assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Net Assets are classified as follows:

Restricted

Public Safety – portion of net assets constituting unspent grant revenues.

Capital for schools – portion of net assets representing a sinking fund required by a financing contract entered into by the County to construct schools.

Register of Deeds – portion of net assets constituting the Automation Enhancement and Preservation Fund, funded by 10% of the fees collected and maintained by the register of deeds' office. The funds are legally restricted for computer and imaging technology in the register of deeds' office and the portion of net assets constituting unspent grant revenues.

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Fund Balances

In the governmental fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as these amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved

Reserved for inventories and prepaid items - portion of fund balance *not* available for appropriation because it represents the year-end balance of ending inventories and prepaid items, which are not expendable available resources.

Reserved for encumbrances - portion of fund balance available to pay for any commitments related to purchase orders and contracts that remained unperformed at year-end.

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is *not* available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of the receivable balances that are not offset by deferred revenues.

Reserved for register of deeds – portion of fund balance constituting the Automation Enhancement and Preservation Fund, funded by 10% of the fees collected and maintained by the register of deeds' office. The funds are available for appropriation but are legally restricted for computer and imaging technology in the register of deeds' office.

Unreserved

Designations of Catawba County represent tentative management plans that are subject to change. The unreserved fund balance had the following designations at June 30, 2004:

Designated for subsequent year's expenditures:		
General Fund	\$	9,827,790
Water & Sewer Construction Fund	\$	12,867,129
School Capital Project Fund	\$	4,613,373
Nonmajor Special Revenue Funds	\$	871,420
Nonmajor Capital Project Funds	\$	18,825,567

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2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets are not financial resources and therefore are not reported in the funds.” The details of this \$72,917,393 difference are as follows:

Land	\$ 6,092,870
Construction in progress	4,617,325
Buildings & other improvements, net of \$27,450,518 accumulated depreciation	57,019,035
Equipment, net of \$9,735,413 accumulated depreciation	<u>5,188,163</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 72,917,393</u>

Another element of the reconciliation explains that “some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$69,575,814) difference are as follows:

Bonds payable	\$ (55,880,000)
Installment purchase payable	(9,900,000)
Capitalized leases payable	(69,778)
Compensated absences	(3,217,343)
Net pension obligation	<u>(508,693)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ (69,575,814)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the

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statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$3,449,356 difference are as follows:

Capital outlay	\$ 7,207,703
Depreciation expense	<u>(3,758,347)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 3,449,356</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this (\$2,527,644) difference are as follows:

Debt issued or incurred:	
Installment purchase obligation	\$ (9,900,000)
Principal repayments:	
General obligation debt	7,160,000
Capitalized leases	<u>212,356</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (2,527,644)</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this (\$189,085) difference are as follows:

Compensated absences	\$ (192,284)
Net pension obligation	<u>3,199</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (189,085)</u>

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3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

The expenditures for the education function of the General Fund were \$30,048,641, which exceeded appropriations of \$29,538,852. This \$509,789 difference is the result of more fines and forfeitures being received and distributed on behalf of the schools than had been anticipated in the budget.

4. DETAIL NOTES ON ALL FUNDS

A. Assets

Deposits and Investments

Deposits

All of the County's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the County's agent in the name of the County. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity, these deposits are considered held by their agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2004, the County's deposits had a carrying amount of \$1,218,786 and a bank balance of \$1,787,692. Of the bank balance, \$304,555 was covered by federal depository insurance, and \$1,483,137 in interest bearing deposits was covered by collateral held under the Pooling Method.

At June 30, 2004, Catawba County had \$9,015 cash on hand.

Investments

The County's investments are categorized to give an indication of the level of custodial risk assumed by the County at year-end. In the following tables, Column 1 includes investments that are insured or registered or for which the securities are held by the County or their agent in the County's name. Column 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Column 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's

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name. The County's investments in the North Carolina Capital Management Trust are exempt from risk categorization because the County does not own any identifiable securities in these mutual funds.

At June 30, 2004, the County's investment balances were as follows:

	CATEGORIES			REPORTED	FAIR
	1	2	3	VALUE	VALUE
U.S. Government Securities	\$ 5,075,921	\$ -	\$ -	\$ 5,060,574	\$ 5,075,921
U.S. Government Agencies	81,634,115	-	-	81,628,297	81,634,115
Commerical Paper	2,000,000	-	-	2,000,000	2,000,000
Money Market, restricted	8,043,660	-	-	8,043,660	8,043,660
Money Market	4,993,767	-	-	4,993,767	4,993,767
	<u>\$101,747,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$101,726,298</u>	<u>\$101,747,463</u>
North Carolina Capital Management Trust – Cash				3,690,150	3,690,150
				<u>\$105,416,448</u>	<u>\$105,437,613</u>

During 2004, the County realized a net loss of (\$216,654) from the sale of investments. The calculation of realized gains is independent of the calculation of the net increase or decrease in fair value of investments. Realized gains and losses on investments that had been held for more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of the investments reported in the prior year. The net increase (decrease) in the fair value of investments during 2004 for the County was (\$1,380,735). This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized loss on investments held at year-end for the County was (\$1,026,302).

Property Tax – Use – Value Assessment on Certain Lands

In accordance with the General Statutes, agriculture, horticulture, and forestland may be taxed by the County at the present-use value as opposed to market value. When the property loses its eligibility for use-value taxation, the property tax is recomputed at market value for the current year and the three preceding fiscal years, along with the accrued interest from the original due date. This tax is immediately due and payable. The following are property taxes that could become due if present use-value eligibility is lost. These amounts have not been recorded in the financial statements.

<u>Year Levied</u>	<u>Tax</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 531,406	\$ 126,209	\$ 657,615
2002	534,192	78,793	612,985
2003	681,343	39,177	720,520
2004	673,259	-	673,259
Total	<u>\$ 2,420,200</u>	<u>\$ 244,179</u>	<u>\$ 2,664,379</u>

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Receivables

Receivables at the government-wide level at June 30, 2004 were as follows:

	Accounts	Taxes	Notes Receivable	Due From other Governments	Other	Total
Governmental Activities						
General	\$ 3,699,798	\$ 3,814,585	\$ -	\$ 9,837,859	\$ 535,529	\$ 17,887,771
Other Governmental	-	179,339	1,293,992	1,420,408	267,781	3,161,520
Total Receivables	\$ 3,699,798	\$ 3,993,924	\$ 1,293,992	\$ 11,258,267	\$ 803,310	\$ 21,049,291
Allowance for doubtful accounts	(263,562)	(814,400)	-	-	-	(1,077,962)
Total governmental activities	<u>\$ 3,436,236</u>	<u>\$ 3,179,524</u>	<u>\$ 1,293,992</u>	<u>\$ 11,258,267</u>	<u>\$ 803,310</u>	<u>\$ 19,971,329</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,027,329</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,027,329</u>
Business-type activities						
Solid Waste Management	\$ 465,365	\$ -	\$ -	\$ 128,592	\$ 71,973	\$ 665,930
Allowance for doubtful accounts	-	-	-	-	-	-
Total Business-type activities	<u>\$ 465,365</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 128,592</u>	<u>\$ 71,973</u>	<u>\$ 665,930</u>

The due from other governments that is owed to the County consists of the following:

	Governmental Activities	Business-Type Activities
Local option sales tax	\$ 6,988,072	\$ -
White goods disposal tax	-	13,839
Scrap tire tax	-	35,843
Various federal and state grants	3,696,449	90
Refundable sales tax	573,746	78,820
	<u>\$ 11,258,267</u>	<u>\$ 128,592</u>

**CATAWBA COUNTY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions & Adjustments</u>	<u>Transfers & Retirements</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 6,092,870	\$ -	\$ -	\$ 6,092,870
Construction in progress	717,816	4,161,321	(261,812)	4,617,325
Total capital assets, not being depreciated	<u>\$ 6,810,686</u>	<u>\$ 4,161,321</u>	<u>\$ (261,812)</u>	<u>\$ 10,710,195</u>
Capital assets, being depreciated				
Buildings	\$ 67,999,062	\$ 1,742	\$ -	\$ 68,000,804
Other improvements	16,650,525	146,683	(328,459)	16,468,749
Equipment and vehicles	12,525,149	2,897,957	(499,530)	14,923,576
Total capital assets, being depreciated	<u>\$ 97,174,736</u>	<u>\$ 3,046,382</u>	<u>\$ (827,989)</u>	<u>\$ 99,393,129</u>
Less accumulated depreciation for				
Buildings	\$ (23,830,095)	\$ (1,348,605)	\$ -	\$ (25,178,700)
Other improvements	(1,978,997)	(707,798)	414,977	\$ (2,271,818)
Equipment and vehicles	(8,708,293)	(1,715,347)	688,227	\$ (9,735,413)
Total accumulated depreciation	<u>\$ (34,517,385)</u>	<u>\$ (3,771,750)</u>	<u>\$ 1,103,204</u>	<u>\$ (37,185,931)</u>
Total capital assets, being depreciated, net	<u>\$ 62,657,351</u>	<u>\$ (725,368)</u>	<u>\$ 275,215</u>	<u>\$ 62,207,198</u>
Governmental activities capital assets, net	<u><u>\$ 69,468,037</u></u>	<u><u>\$ 3,435,953</u></u>	<u><u>\$ 13,403</u></u>	<u><u>\$ 72,917,393</u></u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 188,514
Public safety	828,385
Environmental protection	26,404
Economic & physical development	1,255,525
Human services	1,391,993
Culture and recreation	80,929
Total depreciation expense	<u><u>\$3,771,750</u></u>

CATAWBA COUNTY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Beginning Balance</u>	<u>Additions & Adjustments</u>	<u>Transfers & Retirements</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 3,935,027	\$ 513,673.00	\$ -	\$ 4,448,700
Construction in progress	2,904,664	2,394,016	(219,813)	5,078,867
Total capital assets, not being depreciated	<u>\$ 6,839,691</u>	<u>\$ 2,907,689</u>	<u>\$ (219,813)</u>	<u>\$ 9,527,567</u>
Capital assets, being depreciated				
Buildings	\$ 755,824	\$ 59,804	\$ -	\$ 815,628
Other improvements	10,169,527	15,012	219,813	10,404,352
Equipment and vehicles	6,616,141	687,427	(250,216)	7,053,352
Total capital assets, being depreciated	<u>\$ 17,541,492</u>	<u>\$ 762,243</u>	<u>\$ (30,403)</u>	<u>\$ 18,273,332</u>
Less accumulated depreciation for				
Buildings	\$ (69,888)	\$ (20,938)	\$ -	\$ (90,826)
Other improvements	(7,418,625)	(1,098,716)	-	(8,517,341)
Equipment and vehicles	(3,312,108)	(759,248)	250,216	(3,821,140)
Total accumulated depreciation	<u>\$ (10,800,621)</u>	<u>\$ (1,878,902)</u>	<u>\$ 250,216</u>	<u>\$ (12,429,307)</u>
Total capital assets, being depreciated, net	<u>\$ 6,740,871</u>	<u>\$ (1,116,659)</u>	<u>\$ 219,813</u>	<u>\$ 5,844,025</u>
Business-type activities capital assets, net	<u><u>\$ 13,580,562</u></u>	<u><u>\$ 1,791,030</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 15,371,592</u></u>

Construction Commitments

Construction in progress is composed of numerous projects within the following funds:

<u>Fund</u>	<u>Project Authorization</u>	<u>Expended to June 30, 2004</u>	<u>Committed</u>	<u>Required Future Financing</u>
General Capital Projects	\$ 25,432,761	\$ 17,800,662	\$ 7,632,099	None
Water and Sewer Construction	25,854,417	11,045,368	14,809,049	None
Schools Capital Projects	20,237,542	15,508,523	4,729,019	None
School Bond Fund				
1997 Series	9,336,819	8,634,676	702,143	None
Hospital Construction	800,000	800,000	0	None
School Construction	<u>14,423,503</u>	<u>3,814,112</u>	<u>10,609,391</u>	None
Total	<u><u>\$ 96,085,042</u></u>	<u><u>\$ 57,603,341</u></u>	<u><u>\$ 38,481,701</u></u>	

**CATAWBA COUNTY, NORTH CAROLINA
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FOR THE YEAR ENDED JUNE 30, 2004**

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2004, were as follows:

	Vendors	Salaries and Benefits	Other	Total
Governmental Activities				
General	\$ 3,491,495	\$ 3,213,903	\$ 1,464,888	\$ 8,170,286
Other Governmental	1,810,908	24,965	37,687	1,873,560
Total governmental activities	<u>\$ 5,302,403</u>	<u>\$ 3,238,868</u>	<u>\$ 1,502,575</u>	<u>\$ 10,043,846</u>
Business Type Activities				
Solid Waste Management	<u>\$ 468,497</u>	<u>\$ 75,982</u>	<u>\$ 130</u>	<u>\$ 544,609</u>

Pension Plan Obligations

Local Governmental Employees' Retirement System -

Plan Description. All permanent full-time employees of Catawba County participate in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Covered employees are required by State statute to contribute six percent of their annual covered salary to LGERS. The County is required by the same statute to contribute at an actuarially determined rate. For the County, the current rates for employees not engaged in law enforcement and for law enforcement officers are 4.88% and 4.78%, respectively, of annual covered payroll. The contribution requirements of members and of Catawba County are established and may be amended by the North Carolina General Assembly. The County's contributions to LGERS for the years ended June 30, 2004, 2003, and 2002 were \$1,823,253, \$1,754,328, and \$1,739,337 respectively. The contributions made by the County equaled the required contributions for each year.

**CATAWBA COUNTY, NORTH CAROLINA
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Law Enforcement Officers Special Separation Allowance -

Plan Description

Catawba County administers public employee retirement systems (the *Separation Allowance*), single-employer, defined benefit pension plans that provide retirement benefits to the County's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the County are covered by the Separation Allowance. At December 31, 2003, the Separation Allowance's membership consisted of:

Retirees receiving benefits	14
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>107</u>
	<u>121</u>

A separate report was not issued for the County's plan.

Summary of Significant Accounting Policies:

Basis of Accounting. The County has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures for the County are made from the General Fund, which is maintained on the modified accrual basis of accounting. Administration expenses are recognized as incurred.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions

The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and have, at the present, chosen to fund the benefit payments on a pay as you go basis. For the County, these benefits are funded through appropriations made in the General Fund operating budget. These benefit payments for the County are considered immaterial amounts. The County's obligation to contribute to the plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees to the County's plan.

The annual required contribution for the current year for the County was determined as part of the December 31, 2003, actuarial valuation using the projected unit credit actuarial cost method. The actuarial

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assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.9% to 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2003 was 27 years.

Annual Pension Cost and Net Pension Obligation. The County's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 110,172
Interest on net pension obligation	36,915
Adjustment to annual required contribution	<u>(27,935)</u>
Annual pension cost	119,152
Contributions made	<u>119,637</u>
Increase (decrease) in net pension obligation	(485)
Net pension obligation beginning of year	<u>509,177</u>
Net pension obligation end of year	<u>\$ 508,693</u>

3 Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	114,249	50.12	475,639
6/30/03	116,322	71.17	509,177
6/30/04	119,152	100.41	508,693

Supplemental Retirement Income Plan for Law Enforcement Officers -

Plan Description. All law enforcement officers employed by the County participate in the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. Participation begins at the date of employment, and benefits are provided to all law enforcement officers employed by the County. G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 requires the County to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Total contributions for the County for the year ended June 30, 2004 were \$223,629, which consisted of \$182,337 from the County and \$41,292 from the law enforcement officers.

**CATAWBA COUNTY, NORTH CAROLINA
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FOR THE YEAR ENDED JUNE 30, 2004**

Register of Deeds' Supplemental Pension Fund -

Plan Description. Catawba County also contributes to the Registers of Deeds' Supplemental Pension Fund (Fund), a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any eligible county register of deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. On a monthly basis, the County remits to the Department of State Treasurer an amount equal to four and one-half percent (4.5%) of the monthly receipts collected pursuant to Article 1 of G.S. 161. Immediately following January 1 of each year, the Department of State Treasurer divides ninety-three percent (93%) of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Fund's assets may be used by the State Treasurer in administering the Fund. For the year ended June 30, 2004, the County's required and actual contributions were \$54,664.

Other Postemployment Benefits - Catawba County

According to a County resolution, the County provides health care benefits to retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System (LGERS) and have at least thirty years of creditable service with the County. The County will pay the individual premium for these individuals. Also, retirees can purchase coverage for their dependents at the County's group rates. Eligibility for coverage ceases when the retiree and/or dependents receive Medicare. Currently, twelve retirees are eligible for postretirement health benefits. The government finances the plan on a pay-as-you-go basis. For the fiscal years ended June 30, 2004 and 2003, the County made payments for postretirement health benefit premiums of \$72,336 and \$58,429, respectively. The County has a limited self-insurance plan covering health care coverage, and has a stop loss policy with private insurers.

The County has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System, a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in LGERS, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in LGERS at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$20,000. All death benefit payments are made from the Death Benefit Plan. The County has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. For the fiscal year ended June 30, 2004, the County made contributions to the State for death benefits of \$32,673. The County's required contribution for employees not engaged in law enforcement and for law enforcement officers represented .08% and .14% of covered

**CATAWBA COUNTY, NORTH CAROLINA
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payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

Closure and Postclosure Care Costs - Blackburn Landfill Facility

State and Federal laws and regulations require the County to place a final cover on its current operating cell at Blackburn Landfill Facility when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County also has a closed cell at the Blackburn Landfill Facility for which the entire amount of the closure and postclosure costs has been recognized as the cell capacity was used. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$3,680,305 reported as landfill closure and postclosure care liability at June 30, 2004 represents a cumulative amount reported to-date based on the use of 41% percent of the total estimated capacity of the operating cell of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$5,833,026 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. The County expects to close the current operating cell at the Blackburn facility in the year 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County has met the requirements of a local government financial test that is one option under State and Federal laws and regulations that helps determine if a unit is financially able to meet closure and postclosure care requirements. However, the County has also elected to establish a reserve fund to accumulate resources for the payment of closure and postclosure care costs. A balance of \$446,144 has accumulated in the Solid Waste Reserve Fund at the end of the 2003-2004 fiscal year, and these funds are being invested along with other available County dollars. The County expects that future inflation costs will be paid from the interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or by future tax revenues.

Deferred/Unearned Revenues

The balance in deferred revenue on the fund statements and unearned revenues on the government-wide statements at year-end is composed of the following elements:

Governmental Activities	Deferred Revenue		Unearned Revenue
	General Fund	Special Revenue	
Taxes receivable (net)	\$ 3,035,184	\$ 144,340	\$ -
Ambulance receivable (net)	613,720	-	-
Business license receivable (net)	5,383	-	-
Human resource receivable (net)	2,690,667	-	-
Prepaid taxes not yet earned	166,215	-	166,215

CATAWBA COUNTY, NORTH CAROLINA
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Prepaid licenses and other	13,391	-	13,391
Unearned revenues	640,379	29,833	670,212
Notes receivable	-	1,293,992	-
Total	<u>\$ 7,164,939</u>	<u>\$ 1,468,165</u>	<u>\$ 849,818</u>

Business-type activities	Solid Waste Management	
Deferred/Unearned revenue	<u>\$ 70,946</u>	<u>\$ 70,946</u>

Risk Management

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in two self-funded risk-financing pools administered by the North Carolina Association of County Commissioners. Through these pools, the County obtains property insurance coverage equal to replacement cost values of owned property subject to schedules submitted at the beginning of each fund year, and a total pool limit of \$150 million for any one occurrence of damage to property, general, auto, professional, and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence, and workers' compensation coverage up to statutory limits. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request. The pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 up to a \$2 million limit for liability coverage, and single occurrence losses of \$350,000 for workers' compensation.

For health insurance, the County is reinsured through a commercial carrier for individual losses in excess of \$100,000, and aggregate annual losses in excess of 120% of the expected net paid claims.

The County carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR's).

Changes in the balances of claims liabilities during the past fiscal year are as follows:

	2004	2003
Unpaid claims, beginning	\$ 427,000	\$ -
Incurred claims	3,850,862	3,734,717
Claim payments	3,827,862	3,307,717
Unpaid claims, ending	<u>\$ 450,000</u>	<u>\$ 427,000</u>

**CATAWBA COUNTY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

Contingent Liabilities

At June 30, 2004, the County was a defendant to various lawsuits. In the opinion of management and the County attorney, the ultimate effect of these legal matters will not have a material adverse effect on the County's financial position.

Long-Term Obligations

Operating Leases

Catawba County is committed under various operating leases for building space and equipment. These operating leases can be canceled with proper notice. For the year ended June 30, 2004, total lease expenditures reached \$715,575.

The following is a schedule of the future minimum lease payments under these leases:

<u>Year Ending</u>	<u>Amount</u>
2005	\$ 792,523
2006	578,085
2007	355,406
2008	<u>330,023</u>
Total	<u>\$ 2,056,037</u>

Capital Lease Obligations

Catawba County has entered into agreements to lease certain equipment. These lease agreements qualify as lease-purchases (capital leases) for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

For Catawba County, the first agreement was executed on May 15, 1997, for the lease of a public safety vehicle and requires five annual payments of \$19,521. The second agreement was executed on March 20, 1998, for the lease of a public safety vehicle and requires five annual payments of \$28,209. The third agreement was executed on June 25, 1999, for the lease of five public safety vehicles and requires five annual payments of \$80,283. A fourth agreement was executed on October 15, 2001 for the lease of three public safety vehicles and requires three annual payments of \$106,400. A fifth agreement was executed on October 20, 2001 for the lease of seven trucks and requires three annual payments of \$ 35,120. Under the terms of the agreements, title passes to the County at the end of the lease term.

**CATAWBA COUNTY, NORTH CAROLINA
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At June 30, 2004, the County's leased equipment was valued at:

	Cost	Accumulated Depreciation	Net Book Value
Equipment	<u>\$ 926,343</u>	<u>\$ 685,458</u>	<u>\$ 240,885</u>

For Catawba County, the future minimum lease obligations and the net present value of these minimum lease payments at June 30, 2004, were as follows:

<u>Fiscal Year</u>	
2005 minimum lease payments	\$ 70,760
Less amount representing interest	<u>982</u>
Present value of the minimum lease payments	<u>\$ 69,778</u>

Installment Purchase

As authorized by State law (G.S. 160A-20 and 153A-158.1), the County entered into an installment financing agreement for the purpose of paying a portion of the cost of construction and equipping a public middle school for Hickory City Schools. The installment purchase was issued pursuant to a deed of trust that requires legal title remain with the County as long as the debt is outstanding. The County entered into a lease with the Board of Education of the Hickory Administrative School Unit ("Board of Education") that transfers the rights and responsibilities for the maintenance and insurance of the property to the Board of Education. The lease calls for nominal annual lease payments. The lease term is the same as that of the installment purchase obligation. Due to the economic substance of the transaction, the capital assets associated with the installment purchase obligation are recorded by the Board of Education.

The installment purchase was executed on September 15, 2003 for the construction and equipping of a public middle school for use by the Board of Education. The transaction requires fifteen principal payments by the County of \$660,000 and thirty semi-annual interest payments at an interest rate of 3.54%.

For Catawba County, the future minimum payments as of June 30, 2004, including \$2,631,234 of interest are:

	<u>Principal</u>	<u>Interest</u>
2005	\$ 660,000	\$ 338,874
2006	660,000	315,510
2007	660,000	292,146
2008	660,000	269,486
2009-2013	3,300,000	993,898
2014-2018	3,300,000	409,542
2019	<u>660,000</u>	<u>11,778</u>
Present Value of minimum lease payments	<u>\$ 9,900,000</u>	
Total Interest Payments		<u>\$ 2,631,234</u>

**CATAWBA COUNTY, NORTH CAROLINA
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General Obligation Indebtedness

All general obligation bonds serviced by the County's general fund are collateralized by the full faith, credit, and taxing power of the County. Principal and interest requirements are appropriated when due, from property tax revenues.

The County's general obligation bonds payable at June 30, 2004 are comprised of the following individual issues:

Serviced by the County's General Fund:

\$11,140,000 1993 School Facility Refunding Bonds due in varying annual installments from \$1,020,000 - \$1,160,000 through June 1, 2005: interest at 4.5 - 4.6%		\$ 1,020,000
\$2,785,000 1993 Community College Refunding Bonds due in varying annual installments from \$255,000 - \$290,000 through June 1, 2005: interest at 4.5 - 4.6%		255,000
\$9,875,000 1995 School Facility Serial Bonds due in varying annual installments from \$600,000 - \$700,000 through June 1, 2010: interest at 5.1%		4,275,000
\$5,500,000 1996 School Facility and Community College Public Improvement Bonds due in varying annual installments from \$350,000 - \$400,000 through June 1, 2011: interest at 5.0 - 5.1%	Schools	1,932,000
	Community College	868,000
\$14,600,000 1997 School Facility Series Bonds due in varying annual installments from \$900,000 - \$1,100,000 through June 1, 2013: interest at 4.7 - 4.75%		9,100,000
\$9,800,000 1998 School Facility Series Bonds due in varying annual installments from \$550,000 - \$800,000 through June 1, 2013: interest at 4.3 - 4.4%		6,450,000
\$16,645,000 1999 School Facility Series Bonds due in varying installments from \$950,000 - \$1,400,000 through June 1, 2014: interest at 4.4 - 4.7%		11,900,000

**CATAWBA COUNTY, NORTH CAROLINA
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\$8,955,000 2000 School Facility Series Bonds due in varying installments from \$450,000 - \$805,000 through June 1, 2015: interest at 5.3 - 5.4%	7,105,000
\$14,495,000 2002 School Facility and Community College Refunding Bonds due in varying annual installments from \$420,000 - \$2,070,000 through June 1, 2014: interest at 2.0 - 4.0%	
Schools	10,380,000
Community College	2,595,000
Total	<u>\$ 55,880,000</u>

Annual debt service requirements to maturity for the County's general obligation bonds are as follows:

	<u>Governmental Activities</u>	
Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	7,120,000	2,539,495
2006	6,320,000	2,223,270
2007	6,130,000	1,947,720
2008	6,250,000	1,676,320
2009	6,295,000	1,398,870
2010-2014	22,960,000	3,062,400
2015	<u>805,000</u>	<u>43,470</u>
Total	<u>\$ 55,880,000</u>	<u>\$ 12,891,545</u>

At June 30, 2004, Catawba County had no authorized but unissued bonds and had a legal debt margin of \$944,134,933.

General Obligation Refunding Bonds

On December 10, 2002, the County issued \$14,495,000 of General Obligation Refunding Bonds to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of general resources for all future debt payments of the following \$14,040,000 of general obligation bonds:

\$1,200,000 School Bonds, Series 1991, dated March 1, 1991, and stated to mature on June 1 in the years 2003 to 2006, inclusive.

\$4,065,000 School Bonds, Series 1993, dated August 1, 1993, and stated to mature on August 1 in the years 2003 to 2013, inclusive.

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\$1,925,000 Community College Bonds, Series 1993, dated August 1, 1993, and stated to mature on August 1 in the years 2003 to 2013, inclusive,

\$5,950,000 School Bonds, Series 1994, dated June 1, 1994, and stated to mature on June 1 in the years 2003 to 2011, inclusive.

\$900,000 Community College Bonds, Series 1994, dated June 1, 1994, and stated to mature on June 1 in the years 2003 to 2011, inclusive.

As a result, the refunded bonds are considered defeased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by \$766,875 and resulted in an economic gain of \$748,267.

The escrow fund purchased under the escrow deposit agreement shall mature in principal amounts and pay interest over the original debt period plus allow for early redemption of the bonds prior to the maturity of these refunded bonds. \$7,290,000 of the refunded bonds were redeemed during the prior fiscal year leaving an outstanding balance at June 30, 2003 of \$6,750,000. The remainder of these bonds were redeemed during the current fiscal year leaving an outstanding balance at June 30, 2004 of \$0.

Revenue Bonds

On December 22, 1999, the county issued County of Catawba, North Carolina Recreational Facilities Lease Revenue Bonds (YMCA of Catawba Valley Project), Series 1999 totaling \$4,300,000 pursuant to an Indenture of Trust dated as of December 1, 1999 (the "Indenture") between the County of Catawba, North Carolina (the "County") and First Citizens Bank & Trust Company, as trustee (the "Trustee"), and authorized by a bond order of the County adopted effective as of December 8, 1999. The proceeds received by the County from the sale of the Bonds will be used by the County to acquire, pursuant to the Ground Lease dated as of December 1, 1999 (the "Ground Lease") between the Young Mens Christian Association of Catawba Valley, Inc. (the "Corporation") as lessor and the County as Lessee, a long-term leasehold estate in (i) certain existing recreational facilities owned by the corporation, and (ii) certain real property on which the Corporation intends to construct new recreational facilities to be owned by the Corporation ((i) and (ii) collectively, the "Property"), which Property the County simultaneously will lease back to the Corporation pursuant to the Lease Agreement dated as of December 1, 1999 (the "Lease Agreement") between the County and the Corporation. The Corporation intends to use the funds it receives from the lease of the property to the County under the Ground Lease and from other sources for the purpose of refinancing certain existing indebtedness and financing the costs of acquiring, constructing, improving and equipping certain new recreational facilities, which are located within the County.

The Bonds will be limited obligations of the County. The Bonds and interest thereon and any redemption or purchase premiums with respect thereto do not now and shall never constitute an indebtedness or an obligation of the County, the State of North Carolina (the "State") or any political subdivision thereof, within the meaning of any constitutional limitation or statutory provision and will not give rise to a charge against

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the general credit or taxing powers of any of them, but shall be payable solely from the revenues and income derived from the Lease Agreement, which revenues and income have been pledged and assigned to the Trustee to secure payment thereof, and from moneys available to be drawn by the Trustee under the Credit Facility. No owner of the Bonds shall have the right to compel the exercise of the taxing power of the County, the State or any political subdivision thereof to pay any principal installment or purchase price of, or redemption or purchase premium, if any, or interest on the Bonds.

On March 1, 1999, the County issued County of Catawba, North Carolina Refunding Revenue Bonds (Catawba Memorial Hospital Project) Series 1999 ("the Series 1999 Bonds") totaling \$23,620,000 for the purpose of refunding the Series 1992 Hospital Revenue bonds ("the Series 1992 Bonds"). The County defeased \$24,070,000 of the Series 1992 bonds in an escrow fund to provide for all future debt service. As a result of this defeasance transaction, a proportionate amount of the unamortized bond issuance costs were written off. A loss totaling \$2,286,075 was deferred and is being amortized over the remaining life of the refunded bonds. Costs of \$637,326 were incurred in connection with the issuance of the Series 1999 Bonds and have been deferred. Such costs are being amortized over the remaining terms of the Series 1999 Bonds. The revenue bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any of the County's property or upon its income, receipts or revenues. The taxing power of the County is not pledged for the payment of the principal or interest on the revenue bonds, and no owner has the right to compel the exercise of the taxing power of the County or the forfeiture of any of its property in connection with any default under the bond order.

Long-Term Obligation Activity

The following is a summary of changes in the County's general long-term debt for the year ended June 30, 2004:

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004	Current Portion Of Balance
Governmental activities					
General obligation debt	\$ 63,040,000	\$ -	\$ (7,160,000)	\$ 55,880,000	\$ 7,120,000
Capitalized leases	282,134	-	(212,356)	69,778	69,778
Installment purchases	-	9,900,000	-	9,900,000	660,000
Compensated absences	3,025,059	2,347,293	(2,155,009)	3,217,343	-
Net pension obligation	511,892	-	(3,199)	508,693	-
Total governmental activities	<u>\$ 66,859,085</u>	<u>\$ 12,247,293</u>	<u>\$ (9,530,564)</u>	<u>\$ 69,575,814</u>	<u>\$ 7,849,778</u>
Business-type activities					
Accrued landfill closure and postclosure costs	\$ 3,622,348	\$ 57,957	\$ -	\$ 3,680,305	\$ 104,839
Compensated absences	70,788	52,768	(44,161)	79,395	-
Total business-type activities	<u>\$ 3,693,136</u>	<u>\$ 110,725</u>	<u>\$ (44,161)</u>	<u>\$ 3,759,700</u>	<u>\$ 104,839</u>

Compensated absences typically have been liquidated in the general fund and are accounted for on a last in first out (LIFO) basis, assuming that employees are taking leave time as it is earned. Therefore, the current portion of compensated absences is \$0.

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Conduit Debt Obligations

Catawba County Industrial Facility and Pollution Control Financing Authority has issued industrial revenue bonds to provide financial assistance to private businesses for economic development purposes. These bonds are secured by the properties financed as well as by letters of credit and are payable solely from payments received from the private businesses involved. Ownership of the acquired facilities is in the name of the private business served by the bond issuance. Neither the County, the Authority, the State nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2004, according to information furnished by the Economic Development Commission, there were nine series of industrial revenue bonds outstanding, with an aggregate principal amount payable of approximately \$31.6 million.

C. Interfund Balances and Activity

The composition of interfund balances as of June 30, 2004 are as follows:

Due to the General Fund from the Community Development Fund for the advance of funds needed for community projects prior to receipt of related grant funds	\$ 661
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Transfers to/from other funds at June 30, 2004, consists of the following:

From the General fund to the Reappraisal fund to accumulate resources for the four year cycle revaluation of real property	\$ 333,476
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From the General fund to the General Capital Reserve fund to accumulate resources for future economic development projects	350,000
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From the General fund to the Rescue Squads fund for the first responder program and to supplement other funding sources	711,653
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From the General fund to the General Capital Projects fund for new construction and various capital improvement projects	2,887,805
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From the General fund to the Water and Sewer Construction fund for the installation of waterline loop to supply adequate water to various County locations	1,950,000
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From the General fund to the School Capital Projects fund to supplement other funding sources for school facility improvements	31,711
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From the General fund to the School Construction fund to accumulate resources for the construction of new school facilities	4,523,503
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From the Narcotics Seized fund to the General fund to provide matching funds for law enforcement grant	2,231
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From the Water and Sewer Reserve fund to the General fund to supplement funds for the expenses of engineering manager of water and sewer projects	49,122
From the Water and Sewer Reserve fund to the Water and Sewer Construction fund to supplement other funds for installation of waterline loop and other water projects	1,323,045
From the Hospital Capital Reserve fund to the Hospital Construction fund to provide funds for the purchase of diagnostic equipment	800,000
From the Parks/Historical Preservation trust fund to the General fund to supplement other funding sources for park employees	53,000
From the School Capital Projects fund to the School Bond Series 1997 fund to improve school property	44,880
From the School Bond Series 1997 fund to School Capital Projects fund to provide funds for improvements to various school properties	1,178,982
Total	<hr/> \$ 14,239,408 <hr/>

5. RELATED ORGANIZATION

The County's governing board is also responsible for appointing five members of the nine-member board of the Economic Development Corporation (EDC), but the County's accountability for this organization does not extend beyond making these appointments. The Economic Development Corporation is a nonprofit organization that exists for the purpose of recruitment, retention and expansion of established manufacturing and non-manufacturing businesses for economic development purposes. Its primary revenues are allocations from Catawba County and various municipalities within the County. The County is not responsible for the debt issued by the EDC and the EDC's debt is not included in determining the County's legal debt limit.

6. JOINT VENTURES

The County, in conjunction with the State of North Carolina and the Catawba County, Newton-Conover and Hickory Boards of Education, participate in a joint venture to operate the Catawba Valley Community College. The State of North Carolina, Catawba County, and the Boards of Education each appoint four members of the thirteen-member board of trustees of the community college. The president of the community college's student government serves as an ex officio nonvoting member of the community college's board of trustees. The community college is included as a component unit of the State. The County has the basic responsibility for providing funding for the facilities of the community college and also provides some financial support for the community college's operations. In addition to providing annual appropriations for the facilities, the County has periodically issued general obligation bonds to provide

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financing for new and restructured facilities. Of the general obligation bond issues for this purpose, \$3,718,000 in debt is still outstanding. The County has an ongoing financial responsibility for the community college because of the statutory responsibilities to provide funding for the community college's facilities. The County contributed \$2,031,414 and \$621,821 to the community college for operating and capital purposes, respectively, during the fiscal year ended June 30, 2004. In addition, the County made debt service payments of \$701,000 during the fiscal year on general obligation bonds issued for community college capital facilities. The participating entities do not have any equity interest in the joint venture; therefore, no equity interest has been reflected in the County's financial statements at June 30, 2004. Complete financial statements for the community college may be obtained from the community college's administrative offices at 2550 Hwy. 70, S.E., Hickory, NC 28602.

The County, in conjunction with three other counties, participates in the Lake Norman Marine Commission (Commission) that was created by the North Carolina General Assembly in 1969. Board members are appointed by the four counties (Catawba, Iredell, Lincoln and Mecklenburg) that fall within the jurisdiction of the Commission. At any given time and on a rotating basis, one of the Counties has two Board appointees and the other three have one Board appointee. Cash contributions in equal amounts from the participating counties comprise the majority of the Commission's revenues. Catawba County contributed \$19,250 to the Lake Norman Marine Commission for operating expenses during the fiscal year ended June 30, 2004.

The County, in conjunction with Burke County, participates in the operation of the Burke-Catawba Regional Jail Agency (Agency), a regional jail facility. The Agency, established under North Carolina General Statute 153A-219, was created for that purpose. On dissolution of the corporation, the net assets of the Agency will be shared by the two counties, according to their allocation. The Agency is governed by a four-member board composed of two appointees from each county. The counties are each obligated by contract to remit amounts required annually to supplement the Agency's operating revenues and are entitled to an allocated share of the Agency's annual operating income, if any. The County's net investment and its share of the operating results of the Agency are reported in the County's Statement of Net Assets. The County's equity interest in the Agency was estimated at \$426,507 at June 30, 2004. Complete financial statements for the Agency can be obtained from the Agency's administrative office at 150 Government Drive, Morganton, NC 28655.

7. JOINTLY GOVERNED ORGANIZATION

The County, in conjunction with three other counties and twenty-three municipalities, established the Western Piedmont Council of Governments (Council). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council's governing board. The County paid membership fees of \$38,946 to the Council during the fiscal year ended June 30, 2004.

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8. BENEFIT PAYMENTS ISSUED BY THE STATE

The amounts listed below were paid directly to individual recipients by the State from federal and State moneys. County personnel are involved with certain functions, primarily eligibility determinations, that cause benefit payments to be issued by the State. These amounts disclose this additional aid to County recipients that do not appear in the general purpose financial statements because they are not revenues and expenditures of the County. The amounts paid by the County are included in the financial statements.

	<u>Federal</u>	<u>State</u>
Medical assistance	\$ 67,536,661	\$29,952,256
Temporary assistance for needy families	1,293,913	30
Low-income energy assistance payments	305,154	-
Aid to the aged and disabled	-	1,021,319
Adoptive services	310,006	346,201
WIC	2,409,081	-
Food stamp program	<u>12,239,918</u>	<u>-</u>
	<u>\$ 84,094,733</u>	<u>\$31,319,806</u>

9. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

A. Federal and State Assisted Programs

The County has received proceeds from various Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Based upon prior experience, management believes such disallowances, if any, will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

10. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

On August 1, 2004, the County issued \$35,705,000 in Certificates of Participation for the funding of various school capital projects. These projects consist of construction and equipping of a new high school, the completion of construction and equipping of a new middle school, and the construction and equipping of a learning resource center at the local community college. The interest rates on the Certificates range from 2.0 – 5.0% and the maturity date is June 1, 2024.

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11. PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2004 the State of North Carolina changed the distribution method for local option sales taxes that it collects on behalf of local governments. These taxes are now distributed on a monthly rather than quarterly basis. Taxes on sales for the month of June 2004 will be distributed by the State on or around September 15, 2004.

In accordance with GASB Statement No. 33, these taxes are considered revenues as of June 30, 2004. The County has decided to consider revenues available for payment of current-year liabilities if collected within 90 days after year-end, other than property taxes. The County has previously considered only revenues collected within 60 days of year-end as available. See Note 1.C.

The September 15, 2004 distributions of these taxes are recognized as revenues for the 2004 fiscal year. If this policy had been in effect for the 2003 fiscal year, ending fund balance of the General Fund would have been \$31,435,479, which is \$1,273,277 higher than previously reported. The ending fund balance of the Schools Capital Fund would have been \$11,211,867, which is \$284,124, higher than previously reported. The beginning fund balances of the General Fund and Schools Capital Fund for the 2004 fiscal year have been restated to that amount.

The change in recognition of sales taxes resulted in an understatement of beginning net assets. In the government-wide statements, beginning net assets were understated by \$1,557,401 due to the understatement of accounts receivable. The beginning net assets of the government-wide financial statements have been restated to \$96,833,036.